

FAQs on

Type-I NBFC Registration Exemption

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Concept of Unregistered Type 1 NBFCs

1. What are Type I NBFCs?

Type I NBFCs are pure investment companies with no access to public funds (direct/indirect, including from directors/shareholders) and no customer interface (lending/ guarantees/ products/ services, including to group entities/ shareholders/ directors).

2. Can there be NBFCs that have the characteristics as Type 1 NBFCs but are not registered as such?

There could be NBFCs that satisfy the criteria for Type 1 NBFCs, that is, pure investment companies without having any public funds or any customer interface, but are not registered as Type 1. This is because, prior to 2016, there was no distinction between Type 1 and Type 2 NBFCs. Accordingly, such NBFCs which had obtained registration prior to 2016 were registered as non-deposit taking NBFCs but without any specific type. Such NBFCs are not automatically recognised or registered as Type 1 NBFCs, even if they meet the relevant criteria.

3. Can an exempt Type 1 NBFC provide corporate guarantees to group entities?

No. Issuing guarantees, whether to banks or other lenders, amounts to financial support and constitutes having customer interface.

4. Is the temporary parking of surplus funds in mutual funds permitted for Type 1 NBFCs?

Yes. Merely investing in mutual fund schemes does not amount to any customer interface and hence shall be permitted to Type 1 NBFCs.

5. What options exist for different categories of relevant NBFCs as of April 1, 2026?

Type of NBFC	Options Available
NBFCs holding Type I Registration as on July 1, 2026 (Effective Date)	Option 1: Apply for deregistration Option 2: Continue to remain as Type I NBFC
Entities that fulfil the conditions for Unregistered Type I NBFC, after July 1, 2026	Option 1: Satisfy the conditions under 65A and remain unregistered [see box on Conditions Subsequent] Option 2: Apply for registration as Type I NBFC
NBFCs not having a customer interface and public funds and having an asset size below ₹1000 crores, but not registered as Type I	Option 1: Apply for deregistration Option 2: Apply for registration as Type I NBFC to avail regulatory exemption Option 3: Maintain status quo

NBFCs not having a customer interface and public funds and having asset size above ₹1000 crores, but not registered as Type I	Option 1: Apply for registration as NBFC Type I Option 2: Apply for registration as NBFC Type II, in case of changes in business model
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Meaning of Public Funds and Customer Interface

6. What is the meaning of "public funds"?

Any funds received from outside sources and which constitute outside liability are treated as public funds. This includes any borrowings/loans from directors/shareholders, besides traditional public sources such as loans from commercial banks. In terms of Registration Directions, public funds can be availed in the following modes:

- public deposits,
- inter-corporate deposits,
- bank finance and
- all funds received from outside sources such as funds raised by issue of Commercial Papers, debentures, etc.

As clarified by the RBI vide its FAQs, even loans from directors and/ or shareholders will be classified as public funds. Further, money availed through margin trading facilities shall also be classified as public funds.

7. What is meant by indirect access to public funds? Whether funds raised from group companies, in turn, having access to public funds, will be construed as indirect public funds?

The term 'public funds' include funds raised, directly or indirectly, through any external sources. However, the explanation to the definition of public funds states that 'Indirect receipt of public funds means funds received not directly but through associates and Group entities which have access to public funds.'

That would mean, any funds received directly or even indirectly from outside sources and which constitute outside liability are treated as public funds. In other words, funds received in the form of public deposits, inter-corporate deposits, bank finance, issuance of commercial papers, debentures etc. are considered as public funds. Further, debt funding received by the NBFC even from group companies/shareholders/directors that are having access to funds from outside sources would be treated as equivalent to indirect public funds, regardless of arm's length nature.

Accordingly, even if the debt funds in the NBFC is coming from its own group entities, but in case such entities have in turn borrowed from outside sources or they have any access to public funds, it will be considered as indirect access to public funds by the NBFC.

8. In case the NBFC has just raised equity investment, will the access to public funds by the shareholders also be concerned as indirect access to public funds for the NBFC?

As per the definition of “public funds” under the Registration Directions, ‘public funds’ include funds raised, directly or indirectly, through public deposits, inter-corporate deposits, bank finance, and other external sources such as issuance of commercial papers, debentures, etc. The definition specifically excludes funds raised through instruments compulsorily convertible into equity shares within a period not exceeding five years from the date of issue.

From the above, it appears that the RBI itself has drawn a distinction between debt-like funding arrangements and equity/equity-linked instruments by specifically excluding compulsorily convertible instruments from the ambit of public funds. Accordingly, since pure equity investments are in the nature of owned funds and do not create a repayment obligation akin to borrowings or externally raised debt, in our view, there may not be a sufficient basis to treat equity investments as public funds.

RBI, in its response to public feedback, has not accepted the suggestion that equity infused from a group entity’s owned funds should be specifically excluded from the ambit of “indirect public funds.”

However, in our view, equity investments should not be regarded as public funds to determine the indirect access of public funds.

9. What would be construed as having a “customer interface”?

“Customer interface” means interaction between the NBFC and its customers while carrying on its NBFBI business.

Further, customer interface shall include

- a. Any account-based relationship, lending relationship or interaction with the customers as part of business of the NBFC;
- b. Any customer-oriented activity like lending or providing guarantee, including to ‘entities in the Group’, its shareholders, its directors;
- c. Providing any other product or service to a customer would constitute ‘customer interface’.
- d. Activities like distribution of mutual funds, credit cards, acting as Point of Presence for NPS, etc., since these activities entail interaction with customers.

However, loans to employees as per terms of employment condition/ contract and not on commercial terms, shall not be treated as customer interface.

10. Whether offering any other service, such as mutual funds/insurance, etc., will also be construed as having a customer interface?

The meaning of 'customer interface' has been clarified to include customer-oriented activity like lending or providing a guarantee, including to 'entities in the Group', its shareholders, its directors, or providing any other "product or service" to a customer.

Here, "Any other product or service" typically refers to customer-centric financial distribution services like mutual funds, bonds, etc. Accordingly, offering services, such as mutual funds/insurance, etc., will be considered as customer interface.

11. Does holding shares of group companies amount to 'customer interface'?

No. Mere passive equity investment in shares (without lending, guarantees or service offerings) does not constitute customer interface.

12. Does investment in debt instruments/ NCDs/OCDs count as customer interface? Can an exempt NBFC invest in NCDs/OCDs of group companies?

The language used in FAQ No. 8 of the amendment directions states that a customer interface includes a "lending relationship or an account-based relationship." In the case of an NBFC investing in NCDs/OCDs issued by an entity, such investment does not create a lending or account-based relationship in the nature of a customer relationship. Accordingly, the issuer of the NCDs/OCDs does not become a customer of the NBFC. Therefore, in our view, investment in NCDs/OCDs should not be construed as constituting a customer interface, and exempt NBFCs can invest in NCDs/OCDs of group companies, provided the funds are not public funds.

13. Does issuing NCDs/OCDs to group companies affect eligibility?

As discussed above, any funds received from outside sources and which constitute outside liability are treated as public funds. In case the debt funds are received by the NBFC from group companies/shareholders/directors that are having access to funds from outside sources, it would be treated as equivalent to public funds, regardless of arm's length nature.

Hence, in case of investment in NCDs/OCDs of an NBFC by group companies, where such entities have in turn borrowed from outside sources or have access to public funds, the same shall be considered as indirect access to public funds by the NBFC.

Exemption Conditions

14. What exemptions will an entity qualifying as an unregistered type 1 NBFC have?

The exemption for a type 1 NBFC intending to apply for de-registration will pertain to the mandatory registration requirement (section 45IA) and the requirement to transfer profits to reserve funds (section 45IC) of the RBI Act. Therefore, an entity qualifying as an unregistered type 1 NBFC will not be required to obtain registration as an NBFC or comply with any of the RBI regulations as applicable to NBFCs.

15. What is the timeline for claiming this exemption for existing NBFCs? What will be the situation for NBFCs which currently do not meet the eligibility criteria as an Unregistered Type 1 NBFC but fulfil the criteria subsequently?

The exemption window opens on 1st July 2026 and remains open till 31st December 2026. However, even in future, it will be open for NBFCs to opt to exit from registration, subject to satisfaction of the eligibility conditions.

16. Is the exemption available only to existing “registered” Type I NBFCs holding CoR or also available to unregistered NBFCs fulfilling conditions for Type I NBFC?

The exemption from registration is available to all entities meeting the conditions for exemption such as:

1. NBFCs registered as Type 1 with asset size less than ₹1000 cr;
2. NBFCs, registered as Type 2 or without any type specified in CoR, not having any access to PF or CI and with asset size less than ₹1000 cr;
3. New and existing entities intending to operate as Type-1 NBFCs with asset size less than ₹1000 cr.

17. Is the exemption granted automatically for qualifying Type I NBFCs?

No, there is no automatic exemption. An application is required to be made to RBI and the RBI has the discretion to approve de-registration subject to being satisfied that the NBFC is functioning with a conscious and long-term business model to operate without availing public funds and without having customer interface.

Procedural Aspects

18. What is the process for availing the status as an unregistered type 1 NBFC ?

- a. Type I NBFC registered with RBI as on July 1, 2026, and fulfilling the prescribed criteria for exemption, may make an application to RBI, for deregistration within a period of six months, by December 31, 2026
- b. Such an application should be supported by the financials for the last 3 years. In these financial statements, there must be no direct or “indirect” access to “public funds”

(including loans from directors/shareholders), nor should there be any lending within the group or outside.

- c. The same shall also be supported by an auditor's certificate.

It is with these conditions that the RBI may, on being satisfied about the business model, grant an exemption from registration.

19. What documents shall support the deregistration application by the NBFC?

The following documents shall be submitted along with the deregistration application:

- a. Statutory Auditor's Certificate certifying that the company does not have public funds and also does not have customer interface as on date;
- b. The Board must pass an upfront resolution, as also annually thereafter, confirming the entity will not avail PF or have CI during the year;
- c. Undertaking from the Board that the NBFC shall disclose its status of being 'Unregistered Type I NBFC' and status of PF and CI as part of Notes to Accounts to the FS;
- d. Original Certificate of Registration;
- e. Evidence of business model without PF and CI;
- f. Audited financials for last 3 financial years;
- g. Report on the status of PF and CI for the last 3 financial years.

20. Which 3 financial years are considered for exemption applications?

Since the applications shall be filed by December 31, 2026, post FY26 audits, the financials for FY 2023-24, 2024-25, and 2025-26, should be submitted.

21. Can past intra-group loans be overlooked if resolved by March 31, 2026?

The exemption conditions relating to "no access to public funds" and "no customer interface" appear to be both a statement of fact as well as future intent, as is evident from the language used in para 6(14A), i.e., "not accepting public funds and not intending to accept public funds" and similarly for customer interface. Accordingly, a mere declaration of intent, if contradicted by factual conduct, may not by itself be sufficient.

That said, the question arises whether any breach of these conditions at any point during the last three financial years would automatically disentitle the entity from availing the exemption. In this regard, a strict interpretation may not be warranted, particularly in cases involving isolated or non-recurring intra-group transactions that do not reflect an established business model.

There are strong grounds to take a more balanced view:

- Firstly, past actions cannot be undone. If the entity has regularised its position by 31 March 2026, such that it no longer has access to public funds and does not have a customer

interface, and has demonstrably aligned its operations with the exemption conditions, denying the benefit solely on account of historical instances may not be in line with regulatory intent.

- Secondly, the regulatory language itself supports a present-position and forward-looking approach. While para 38A(2)(iii) refers to the status during the last three years, paras 38A(2)(iv) and (v)—relating to the auditor’s certificate and Board resolution—focus on the current position, rather than past conduct.

Accordingly, where any past instances (such as intra-group loans taken or given) are sporadic and not indicative of a conscious or sustained business model, and the entity has effectively “cleaned up” both its asset and liability sides by 31 March 2026, there is a reasonable basis to contend that the exemption may still be available.

However, if the past transactions demonstrate a systematic or intentional pattern suggestive of a business model involving access to public funds or customer interface, the exemption may be difficult to sustain.

22. Does RBI have discretion in approving deregistration?

Yes, even if the NBFC fulfills all the required conditions for claiming exemptions, the RBI retains the discretion to approve or reject the application.

23. What does the statutory auditor’s certificate cover?

The statutory auditor’s certificate should certify that the NBFC does not have public funds and also not have customer interface as on date. This certificate should be filed while making an application for claiming exemption.

24. What triggers auditor’s exception reporting?

The Statutory Auditors shall submit an ‘Exception Report’ to the Department of Supervision, RBI in case of violation of any of the conditions on public funds and/or customer interface or any other condition for exemption.

25. Whether it is mandatory for entities meeting the eligibility criteria to claim such exemption?

No, an NBFC fulfilling the qualifying conditions with respect to public funds, asset size and customer interface may choose to avail the exemption. The same is not mandatory. However, in case such entities continue to hold the registration, they will have the following two options:

- a. Register as type 1 NBFC and comply with the provisions applicable on type 1 NBFCs;

- b. Maintain status quo and comply with the RBI norms as applicable for NBFCs not having access to public funds and/or customer interface, as the case may be.

Post-Exemption Compliances

26. What are the mandatory compliances to be ensured by an unregistered type 1 NBFC ?

- a. **Business Model:** Operate without public funds and without customer interface, as their conscious and durable business model on a long-term basis.
- b. **Asset Size:** Maintain asset size of less than ₹1,000 crores, after considering the aggregation of asset size of multiple Unregistered Type-1 NBFCs in the group
- c. **Board Resolution:** Pass an annual Board Resolution that it will not avail public funds and not have customer interface during the year
- d. **Disclosure in Financials:** Disclose in its Notes to Accounts to the financial statements that it is an 'Unregistered Type I NBFC', along with the status of public funds and customer interface
- e. **Exception Report:** Statutory Auditors shall submit Exception Report to the Department of Supervision, RBI in case of violation of conditions on public funds and/or customer interface
- f. **Other Compliances:** Compliance with Chapter IIIB of RBI Act (except 45IA and 45IC) and any other conditions that the RBI may lay down from time to time. Further, unregistered type 1 NBFCs would also be required to comply with the PMLA compliances.

27. Is supervision eliminated for unregistered Type I NBFCs?

While unregistered type 1 NBFCs will not be required to comply with the RBI regulations applicable to the registered NBFCs, it cannot be said that the supervision for such NBFCs are eliminated completely. RBI has reserved the right to issue necessary instructions specifically to 'Unregistered Type I NBFCs' in case any concerns/ risks are observed. Further, RBI has also retained the power to take action against 'Unregistered Type I NBFCs' under Chapter V of the RBI Act, 1934 in case of any violations by them.

28. Is the 50:50 test for PBC criteria irrelevant post-exemption?

The 50-50 test is the basic threshold for determining whether an entity qualifies as an NBFC in the first place. Once it qualifies as an NBFC, it may then either remain registered, seek exemption, or continue as an exempted NBFC. However, if an entity does not meet the 50:50 test, it does not qualify as an NBFC at all. In such a case, the question of being a registered NBFC or an exempted NBFC does not arise. Further, the continuing conditions associated with exemption, such as absence of customer interface, not holding public funds, asset size below ₹1,000 crore, etc., apply only so long as the entity qualifies as an NBFC. If the 50:50 test is not

met, the entity falls outside the NBFC framework altogether, and the requirement for registration, exemption, and ongoing conditions etc., becomes inapplicable as a whole.

Activities undertaken by Unregistered Type 1 NBFC

29. Can an Unregistered Type-I NBFC make Overseas Direct Investments in the financial services sector?

No, registration as a Type 1 NBFC as well as prior approval of the RBI shall be required for undertaking overseas financial services investments. Further para 15 to 19 Chapter III of Reserve Bank of India (Non-Banking Financial Companies – Undertaking of Financial Services) Directions, 2025 which contains general conditions related to opening of foreign subsidiaries and/or JV abroad, shall also be applicable.

30. Can unregistered Type-I NBFCs invest in LLPs?

The restriction on NBFCs becoming partners in an LLP arises from regulations issued by the RBI for registered NBFCs. Accordingly, an unregistered Type-I NBFC, on which the RBI's regulatory framework does not apply, may invest in the capital of an LLP.

However, if the LLP is engaged in financial business activities, an exempt NBFC that becomes a partner in such LLP may be regarded as indirectly engaging in financial business.

31. Can unregistered Type-I NBFCs act as LSP?

For acting as a LSP, an entity need not be an NBFC at all. However, if an NBFC is acting as a LSP, it is engaged in a customer-facing activity such as customer sourcing and servicing and therefore would breach the no customer interface condition. Therefore, Unregistered Type 1 NBFCs will not be able to act as LSPs.

32. Can an unregistered Type 1 NBFC provide default loss guarantees?

Default Loss Guarantee can only be provided by LSPs. As discussed above, Unregistered Type 1 NBFCs cannot act as LSP, and accordingly, they would not be eligible to provide default loss guarantees.

Group-wise Classification

33. Which asset size is considered for classification as unregistered Type I NBFC, standalone or aggregate?

The asset size of all the unregistered type 1 NBFCs in a particular group is aggregated to see the limit of ₹1,000 crore.

34. Are assets of unregistered Type I NBFCs included in group aggregation for determining the layer status?

No, only registered Type I assets are considered in aggregation. Accordingly, while determining the BL/ML status of the registered NBFCs in the group, the asset size of the unregistered NBFCs will not be considered.

Further, it may be noted that while the asset size of type 1 NBFCs will be consolidated, such type 1 NBFCs by default are always kept in the base layer, regardless of the aggregation.